

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 573 - SB 625

March 4, 2011

SUMMARY OF BILL: Declares that lottery retailers shall not be required to reimburse the Tennessee Education Lottery Corporation (TELC), or otherwise make payment to TELC, for stolen instant game lottery tickets, provided the retailer notifies, as soon as possible, the appropriate law enforcement agency and TELC, and within 72 hours of the issuance of a police report concerning the theft, a copy of the report is filed with the TELC.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Exceeds \$452,500/Lottery for Education Account

Assumptions:

- The fiscal impact of this bill is dependent upon several unknown factors such as the number of ticket thefts occurring each year, the cumulative ticket value of such thefts, the timing of notification to TELC, the percentage of ticket thefts that TELC will successfully block validation for prize winnings, the percentage of ticket thefts that result in validation for prize winnings, and the extent of prize winnings paid on validated stolen tickets.
- Due to the extent of unknown factors, determining a precise estimate for this bill is difficult. Based on information provided by TELC, the fiscal impact for this bill is reasonably estimated to reduce net lottery proceeds.
- According to TELC, the Corporation's current policy states that notification must be made to TELC within 24 hours, and a police report must be filed for the stolen tickets within 24 hours of the theft.
- TELC indicates the average unsold pack of instant game tickets is valued at \$300.
- For each theft, a minimum of one pack of instant game tickets are stolen.
- According to TELC, the Corporation currently charges the retailer a pack blocking fee of \$25.00 for each pack of instant game tickets reported stolen.
- According to TELC, current pack blocking fees average approximately \$20,000 per year. This represents an average of 800 packs of instant game tickets reported stolen each year (\$20,000 / \$25). Under current law, the sales value of stolen tickets are estimated to be \$240,000 (800 x \$300) per year.
- Prize payout on instant games tickets is 67 percent of sales.
- At least 30 percent of stolen tickets are validated for prize winnings.

- The value of prize winnings paid on the stolen tickets is \$48,240 ($\$240,000 \times 67.0\% \times 30.0\%$) per year.
- Due to the loss of sales revenue and the validation of stolen tickets for winnings, net lottery proceeds are reduced by at least \$268,240 [$(\$240,000 + \$48,240) - \$20,000$] each year due to theft of instant game tickets.
- TELC indicates that the loosening of the reporting period will increase the number and value of thefts because individuals who steal instant game tickets will become aware of the loosened reporting period, thus believing it provides them greater opportunity to validate prize winnings from the stolen tickets.
- In addition, if TELC can no longer charge fees to the retailer, or require reimbursement for stolen tickets, the retailers' incentive for timely reporting is weakened.
- These factors will have the effect of increasing the extent of lost sales and increasing the percentage of tickets validated for prize winnings.
- A minimum 35 percent increase in theft of instant game tickets, and a minimum 50 percent increase in validation of stolen instant game tickets.
- The decrease in net lottery proceeds transferred to the Lottery for Education is estimated to exceed \$452,540 [$(\$240,000 \times 135.0\%) + (\$240,000 \times 135.0\% \times 67.0\% \times 50.0\%) + \$20,000$] per year.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc